

# ORIGINAL



0000061111

## MEMORANDUM

RECEIVED

303m

TO: Docket Control

2006 SEP -8 A 10: 15

FROM: Ernest G. Johnson  
Director  
Utilities DivisionArizona Corporation Commission  
**DOCKETED**AZ CORP COMMISSION  
DOCUMENT CONTROL

SEP 08 2006

DATE: September 8, 2006

RE: COMPLIANCE ITEM - SECOND MONTHLY SYSTEM IMPROVEMENT  
SURCHARGE REPORT AND STAFF AUDIT IN THE MATTER OF  
EMERGENCY INTERIM RATE RELIEF FOR:

DOCKETED BY

- Miracle Valley Water Company, Inc., Docket No. W-01646A-06-0010
- Cochise Water Company, Docket No. W-01868A-06-0010
- Horseshoe Ranch Water Company, Docket No. W-02235A-06-0010
- Crystal Water Company, Docket No. W-02316A-06-0010
- Mustang Water Company, Docket No. W-02230A-06-0010
- Coronado Estates Water Company, Docket No. W-01629A-06-0010
- Sierra Sunset Water Company, Docket No. W-02240A-06-0010

### Introduction

In Decision No. 68667 (April 20, 2006), the Arizona Corporation Commission ("Commission") approved emergency interim rate relief for Miracle Valley Water Company, Inc., Cochise Water Company, Horseshoe Ranch Water Company, Crystal Eater Company, Mustang Water Company, Sierra Sunset Water Company and Coronado Estates Water company, previously owned by Johnny A. McLain (collectively the "McLain Systems"). The relief was a System Improvement Surcharge ("SIS") of \$9.00 per meter per month. The McLain System is being operated by a Commission appointed interim manager, Arizona Small Utilities Association ("ASUA").

The Decision requires ASUA to maintain a separate bank account in which it must deposit and withdraw all funds received pursuant to the SIS. ASUA must also file monthly reports with Docket Control, in Docket No. W-01642A-06-0010, as a compliance item in this matter, detailing how the SIS funds were spent, on which of the seven systems the money was spent, and a report of the remaining amounts due on accounts payable. The Decision also required Staff to conduct an audit of the SIS fund expenditures on an annual basis beginning April 1, 2007.

The purchase of the McLain Systems by Algonquin Water Resources of America, Inc. ("Algonquin") is currently pending before the bankruptcy court. The proposed sale has been approved by the Commission in Decision No. 68826. It is currently anticipated that the sale can

be finalized and Algonquin can assume operations of the McLain Systems from ASUA within several months. Decision No. 68826 also requires that the SIS terminate the first day of the month after Algonquin has filed notification that the sale of the McLain Systems has closed.

Because of these changes, and to assist the transition from ASUA to Algonquin, Staff is preparing the required monthly SIS reports for ASUA. The reports are being prepared by Staff in connection with a monthly audit of ASUA SIS activity rather than waiting until April 1, 2007, as provided in Decision No. 68667.

### **Initial Audit Results**

On July 24, 2006, Staff conducted its second audit of the SIS account. ASUA has opened a separate bank account and made its first deposit on May 12, 2006. The total amount collected through July 21, 2006 was \$44,202.07. Of the total amount received, \$13,525.94 was received from the Water Infrastructure Funding Authority ("WIFA") for emergency well repairs. Disbursements through July 21, 2006, totaled \$17,745.12 and included \$7,995.45 for payment of accounts payable liabilities. The remaining balance is \$26,456.95. See Schedule JJD-1 for a summary of the SIS account activity and the current status of the accounts payable.

Staff reviewed the bank statement and invoices supporting the disbursements made thus far. Staff noted no unusual transactions or exceptions.

On August 10, 2006, ASUA submitted a thirty day notice indicating that it will discontinue its services as interim manager for the McLain systems effective September 18, 2006. Staff will conduct an audit shortly thereafter to determine the status of the SIS account.

### **Summary**

Based upon Staff's initial review of the SIS account activity, ASUA is appropriately accounting for and disbursing funds in accordance with Commission Decision No. 68667. Staff will continue to audit the SIS account until the transition to Algonquin is completed.

EGJ:JJD:tdp

Originator: James J. Dorf

Service List for: McClain Systems  
Docket Nos. W-01646A-06-0010 et al

Mr. Flavio Gonzalez  
Arizona Small Utilities Association  
210 North Central Avenue, Suite 6B  
Avondale, Arizona 85323-0000

Mr. Christopher C. Kempley  
Chief, Legal Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

Mr. Ernest G. Johnson  
Director, Utilities Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

Ms. Lyn Farmer  
Chief, Hearing Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

**SIS ACCOUNT ACTIVITY MAY 12 THROUGH JULY 21, 2006**

Total Amount Collected to July 21, 2006			30,676.13
Deposit of WIFA Funding			13,525.94
			<u>44,202.07</u>
		Total	
<u>Disbursements</u>	<u>System</u>	<u>Date</u>	
1 New meters and repair parts	Various	5/26/2006	(807.57)
2 New pump for Jaxel well site	Cochise	5/26/2006	(2,595.29)
3 Repair parts - 6" casing	Cochise	6/1/2006	(400.00)
4 Miscellaneous repair parts	Cochise	6/5/2006	(319.07)
5 Labor/mileage/parts-repairs - Feb & Mar '06	Cochise	6/12/2006	(2,101.94)
6 Labor/mileage Jaxel well monitoring	Cochise	Various	(466.70)
7 Chlorination System	Coronado	6/22/2006	(914.47)
8 Accounting Service - Account Payable	All	6/30/2006	(3,035.00)
9 Pump repair parts & labor	Cochise	6/30/2006	(732.42)
10 Labor/Milage Jaxel well monitoring	Cochise	7/7/2006	(71.80)
11 Backfill and grading - Account Payable	Horseshoe	7/11/2006	(200.00)
12 Chlorination System	Coronado	7/13/2006	(830.70)
13 Welding & Repairs-Accounts Payable	Crystal	7/21/2006	(4,715.22)
14 Welding Labor	Crystal	7/21/2006	(554.94)
Total Disbursements			<u>(17,745.12)</u>
Balance as of July 21, 2006			<u><u>26,456.95</u></u>

**ACCOUNTS PAYABLE STATUS THROUGH JULY 21, 2006**

Accounts Payable as of April 30, 2006	240,484.88
Amounts Due ASUA	<u>(147,052.50)</u>
	93,432.38
Amounts Paid through July 21, 2006	<u>(7,995.45)</u>
Remaining Balance	<u><u>85,436.93</u></u>